

Message Text

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12

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AMCONGEN NAPLES

AMEMBASSY OTTAWA

AMEMBASSY PARIS

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AMEMBASSY STOCKHOLM

AMEMBASSY TOKYO

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TAGS: EFIN, IT

SUBJECT: ITALIAN EXCHANGE MARKET DEVELOPMENTS

PASS TREASURY AND FRB

1. SUMMARY. BALANCE OF PAYMENTS FOR FIRST HALF MARCH
REGISTERED SMALL DEFICIT OF \$26.0 MILLION. 1975 BALANCE
OF PAYMENTS THROUGH FIRST TWO AND ONE-HALF MONTHS SHOWED
\$334.3 MILLION CUMULATIVE DEFICIT. NET MARKET INTERVENTION
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DURING MARCH WAS SURPRISING PLUS \$517.8 MILLION, SUGGESTING

THAT BALANCE OF PAYMENTS FOR ENTIRE MONTH MAY HAVE BEEN IN FAIRLY SUBSTANTIAL SURPLUS. STRENGTH OF LIRA DURING MARCH IS ASSUMED BY BANK OF ITALY TO BE PARTIALLY THE RESULT OF LARGE FLOWS OF CAPITAL INTO ITALY, BUT ALSO OF STRONGER TRADE ACCOUNT POSITION. END SUMMARY.

2. MONETARY MOVEMENTS DATA FOR MARCH 1 THROUGH MARCH 15 RECORDED SMALL DEFICIT OF \$26.0 MILLION. CHANGES IN RESERVES DURING MONTH WERE DECREASE IN BOI CONVERTIBLE CURRENCY HOLDINGS OF \$283.0 MILLION, DECREASE IN COMMERCIAL BANKS' NET FOREIGN LIABILITIES BY \$147.5 MILLION, INCREASE IN BOI SHORT-TERM LIABILITIES BY \$0.5 MILLION, DECREASE IN BOI MEDIUM- AND LONG-TERM LIABILITIES BY \$133.8 MILLION, AND DECREASE IN BOI'S SDR HOLDINGS BY \$23.8 MILLION. (INTEREST PAID ON ITALY'S FOREIGN DEBT IN FIRST HALF MARCH TOTALLED \$72.9 MILLION.)

3. EXCHANGE MARKET INTERVENTION DURING FIRST HALF MARCH RESULTED IN NET GAIN OF \$81.0 MILLION. HOWEVER, ERCOLANI, HEAD OF BOI FOREIGN EXCHANGE OPERATIONS, SAID THAT FOR ALL OF MARCH NET MARKET INTERVENTION WAS PLUS \$517.8 MILLION. ON APRIL 1, ALONE, BOI HAD NET PURCHASES OF \$60 MILLION FROM EXCHANGE MARKET. ERCOLANI CITED MANY POSSIBLE REASONS FOR STRONG LIRA PERFORMANCE DURING MONTH. IN CAPITAL ACCOUNT THIS MAY HAVE INCLUDED FOREIGN BORROWING BY ITALIANS (INCLUDING REFLOW OF ITALIAN CAPITAL) BECAUSE OF RELATIVELY LOWER INTEREST RATES ABROAD AS WELL AS SOME INFLOW OF FOREIGN CAPITAL IN RESPONSE TO HIGH ITALIAN INTEREST RATES. STRONGER TRADE ACCOUNT POSITION (TRADE DATA NOT YET AVAILABLE BEYOND JANUARY) MAY REFLECT BETTER PERFORMANCE IN REAL TERMS BECAUSE OF LIQUIDATION OF IMPORTED INVENTORIES, IMPROVEMENT IN TERMS OF TRADE AND FAVORABLE LEADS AND LAGS DUE TO CONTINUED EXPECTATION IN EXCHANGE MARKETS THAT DOLLAR WILL REMAIN WEAK. DESPITE LIST OF POSSIBLE UNDERLYING CAUSES, ERCOLANI FRANKLY STATED INABILITY OF BOI FULLY TO EXPLAIN OVER \$500 MILLION IN MARKET GAINS IN MARCH.

4. BALANCE OF PAYMENTS DEFICIT FOR FIRST TWO AND ONE-HALF MONTHS OF 1975 OF \$334.3 MILLION WAS FINANCED BY DECREASE IN BOI FOREIGN EXCHANGE ASSETS OF \$658.8 MILLION, DECREASE LIMITED OFFICIAL USE

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IN SDR HOLDINGS OF \$17.3 MILLION, INCREASE IN BOI SHORT-TERM LIABILITIES OF \$18.7 MILLION, DECREASE IN BOI MEDIUM- AND LONG-TERM LIABILITIES OF \$77.4 MILLION AND DECREASE IN NET SHORT-TERM BORROWINGS OF COMMERCIAL BANKS OF \$283.1 MILLION. WHILE ALL DATA ARE NOT YET AVAILABLE FOR MONTH OF MARCH, FIGURES FOR MAJOR TRANSACTIONS AFFECTING MONETARY MOVEMENTS WHICH MEASURE SIZE OF TOTAL BOP SURPLUS OR DEFICIT SUGGEST THAT THERE MAY HAVE BEEN OVERALL SURPLUS IN MARCH IN RANGE

\$150-250 MILLION.

5. ON APRIL 2, FOLLOWING FINANCIAL RATES PREVAILED: LIRA EXCHANGE RATE WAS 629.325 LIRE PER DOLLAR, THREE-MONTH FORWARD RATE WAS 639.825 LIRE PER DOLLAR, WEIGHTED AVERAGE DEVALUATION OF LIRA, ACCORDING TO BOI INDEX, WAS 21.19 PERCENT COMPARED TO FEBRUARY 9, 1973 BASE PERIOD, BLACK MARKET RATE IN MILAN WAS 642 LIRE PER DOLLAR, THREE-MONTH EUROLIRA INTEREST RATE WAS 13 1/2 PERCENT, LIRA INTERBANK FORTY-EIGHT HOUR RATE WAS 11.375, AND LIRA INTERBANK THREE-MONTH RATE WAS 12.0.BEAUDRY

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